

CLUSTER ANALYSIS CORRELATION MATRIX

	<u>Bond Rating</u>	<u>ROE Variability</u>	<u>Assets To Equity</u>	<u>Interest Coverage</u>	<u>Quick Ratio</u>	<u>Cash Flow to Assets Variability</u>
ROE Variability	.313					
Assets-to-Equity	.220	.471				
Interest Coverage	-.542	-.329	-.334			
Quick Ratio	-.018	-.045	-.199	.193		
Cash Flow-to- Assets Variability	.213	.694	.092	-.298	.018	
Sales Growth	-.049	-.291	-.018	.204	-.003	-.284

DISCOUNTED CASH FLOW ANALYSIS FOR COMPARABLE FIRM GROUP

	<u>IBES</u>	<u>ZACKS</u>
Mobil Corp.	13.07%	13.26%
Kimberly-Clark Corp.	14.36	14.01
McDonalds Corp.	14.43	14.22
Du Pont (E. I.) de nemours	12.78	13.25
Sara Lee Corp.	15.56	15.09
Exxon Corp.	13.32	12.68
Anheuser-Busch Cos., Inc.	13.55	13.49
Pitney Bowes, Inc.	14.67	14.65
Hershey Foods Corp.	13.87	13.73
Amoco Corp.	14.46	13.90
Air Products Chemicals, Inc.	14.25	14.49
Ryder Systems	12.48	12.31
Chevron Corp.	14.25	14.65
Witco Chemical Corp.	16.72	16.24
Becton Dickinson	12.44	12.94
Texaco	14.02	14.32
Echlin, Inc.	14.94	15.09
Dover Corp.	12.83	11.51
K-Mart	15.28	17.52
Universal Corp.	17.75	19.14
AVERAGE	14.25%	14.33%

ESTIMATION OF THE COST OF EQUITY CAPITAL USING THE EXPECTED MARKET RISK PREMIUM APPROACH

I. INTRODUCTION

This exhibit elaborates on the steps taken in estimating the LECs' cost of equity capital using the expected market risk premium approach. The following specific issues and steps are discussed: 1) the rationale for the conceptual approach; 2) the appropriate method for estimating the expected market return; 3) the source of the expected growth rate; 4) the appropriate interest rate reference point; 5) the specific computational procedure used to estimate the cost of equity capital, and 6) the time period covered by the statistical analysis.

II. RATIONALE FOR THE CONCEPTUAL APPROACH

The expected market risk premium approach estimates prospective equity capital costs. This is appropriate since investors' allocate funds among competing investments based on their expectations, not based solely on historical or earned returns. The expected risk premium approach estimates and evaluates the returns that were expected over a given period of time on a broad equity market index relative to a chosen benchmark security return that is relevant to the LECs. The average expected risk premium of expected market returns over this interest rate benchmark is used in conjunction with current interest rates to estimate the LECs' cost of equity capital.

III. ESTIMATION OF THE EXPECTED MARKET RETURN

In recognition of the fact that most firms pay dividends on a quarterly basis, the quarterly form of the DCF model is used to estimate the expected market return. As in the discussion of the DCF analysis in the above analyses, it is assumed that dividends grow at a given rate over a year with the yearly change in the amount paid by a firm occurring after the second quarter each year.

IV. SOURCE OF THE EXPECTED GROWTH RATE

The expected growth rate used in the quarterly version of DCF model is the consensus mean market value-weighted five-year earnings per share estimate published by the Institutional Brokers Estimate Service (IBES) for the Standard & Poor's 500 index (S&P 500). Dividend yield data is obtained from Standard & Poor's **Outlook**, restated on a quarterly basis.

V. INTEREST RATE REFERENCE POINT

An index of Aa public utility bonds is used as the relevant security return benchmark in the analysis. A three month average (March 1994 - May 1994) of the interest rate benchmark is used in the calculation of the expected market risk premium.

VI. COMPUTATIONAL PROCEDURE

Expected risk premiums $E(RP_t)$ as of point t in time are calculated as the simple arithmetic difference between the expected return on the S&P 500 at time t [$E(S\&P500_t)$], produced by applying the DCF model to the S&P 500, and the average monthly Aa public utility bond yield at time t [$R(UBOND_t)$]. Thus, risk premiums are calculated as:

$$E(RP_t) = E(S\&P500_t) - R(UBOND_t)$$

The average expected risk premium $E(RP)$ for the time period spanning N months is calculated as:

$$E(RP) = \sum_{t=1}^N \frac{E(RP_t)}{N}$$

The cost of equity capital for the LECs is estimated by adding the average expected risk premium $E(RP)$, to the average yield prevailing on Aa public utility bonds over the three month period from March 1994 to May 1994.

It is important to note that the resulting cost of equity estimates for the LECs are not adjusted for flotation costs. Therefore, they are consequently a conservative estimate of the LECs' cost of equity.

VII. TIME PERIOD OF THE ANALYSIS

The statistical analysis uses data on the expected market risk premium and Aa public utility bond yields over the period from October 1987 through May 1994. This time period is dictated by the availability of consistent IBES expected growth rate estimate data.

EXPECTED MARKET RISK PREMIUM

<u>Time Period</u>	<u>Standard & Poor's 500 DCF Cost of Equity*</u>	<u>Moody's Aa Public Utility Bonds</u>	<u>Market Risk Premium</u>
10/87	14.82%	11.11%	3.71%
11/87	15.06	10.62	4.44
12/87	15.46	10.78	4.68
1/88	15.65	10.52	5.13
2/88	15.52	9.91	5.61
3/88	15.42	9.92	5.50
4/88	15.45	10.29	5.16
5/88	15.42	10.53	4.89
6/88	15.65	10.52	5.13
7/88	15.63	10.76	4.87
8/88	15.72	10.85	4.87
9/88	15.66	10.34	5.32
10/88	15.63	9.79	5.84
11/88	15.64	9.80	5.84
12/88	15.58	9.90	5.68
1/89	15.54	9.89	5.65
2/89	15.39	9.93	5.46
3/89	15.34	10.05	5.29
4/89	15.35	10.02	5.33
5/89	15.40	9.79	5.61

EXPECTED MARKET RISK PREMIUM

<u>Time Period</u>	<u>Standard & Poor's 500 DCF Cost of Equity</u>	<u>Moody's Aa Public Utility Bonds</u>	<u>Market Risk Premium</u>
6/89	15.22	9.37	5.85
7/89	15.36	9.23	6.13
8/89	15.14	9.27	5.87
9/89	14.94	9.35	5.59
10/89	15.02	9.28	5.74
11/89	15.17	9.25	5.92
12/89	15.12	9.26	5.86
1/90	15.18	9.39	5.79
2/90	15.29	9.57	5.72
3/90	15.47	9.60	5.87
4/90	15.62	9.81	5.81
5/90	15.70	9.83	5.87
6/90	15.71	9.60	6.11
7/90	15.81	9.61	6.20
8/90	15.69	9.78	5.91
9/90	15.91	9.87	6.04
10/90	16.04	9.77	6.27
11/90	16.23	9.59	6.64
12/90	16.16	9.42	6.74

EXPECTED MARKET RISK PREMIUM

<u>Time Period</u>	<u>Standard & Poor's 500 DCF Cost of Equity</u>	<u>Moody's Aa Public Utility Bonds</u>	<u>Market Risk Premium</u>
1/91	16.17	9.39	6.78
2/91	16.01	9.16	6.85
3/91	15.85	9.23	6.62
4/91	15.61	9.14	6.47
5/91	15.55	9.16	6.39
6/91	15.59	9.28	6.31
7/91	15.59	9.26	6.33
8/91	15.62	9.06	6.56
9/91	15.59	8.95	6.64
10/91	15.52	8.92	6.60
11/91	15.58	8.87	6.71
12/91	15.65	8.71	6.94
1/92	15.60	8.63	6.97
2/92	15.71	8.76	6.95
3/92	15.57	8.82	6.75
4/92	15.53	8.76	6.77
5/92	15.54	8.69	6.85
6/92	15.45	8.63	6.82
7/92	15.44	8.45	6.99
8/92	15.46	8.30	7.16

EXPECTED MARKET RISK PREMIUM

<u>Time Period</u>	<u>Standard & Poor's 500 DCF Cost of Equity</u>	<u>Moody's Aa Public Utility Bonds</u>	<u>Market Risk Premium</u>
9/92	15.57	8.28	7.29
10/92	15.53	8.42	7.11
11/92	15.56	8.51	7.05
12/92	15.57	8.32	7.25
1/93	15.29	8.14	7.15
2/93	15.07	7.92	7.15
3/93	15.00	7.76	7.24
4/93	14.71	7.64	7.07
5/93	14.81	7.64	7.17
6/93	14.73	7.54	7.19
7/93	14.61	7.38	7.23
8/93	14.59	7.07	7.52
9/93	14.43	6.89	7.54
10/93	14.50	6.89	7.61
11/93	14.52	7.17	7.35
12/93	14.50	7.16	7.34
1/94	14.55	7.18	7.37
2/94	14.59	7.34	7.25
3/94	14.66	7.74	6.92
4/94	14.69	8.12	6.57
5/94	14.77%	8.24%	6.53%
 AVERAGE	 15.37%	 9.08%	 6.29%**

Billingsley Exhibit No. RSB-5
Expected Market Risk Premium
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NOTES: *Standard and Poor's 500 DCF Cost of Equity, calculated as described
 in Exhibit No. RSB-4.

 **The average risk premium is the average of the monthly risk
 premiums.

BELL OPERATING COMPANIES

CAPITAL STRUCTURE

<u>Component</u>	<u>Amount (000)</u>	<u>Ratio</u>	<u>Cost Ratio</u>	<u>Weighted Cost Rate</u>
Common Equity	\$ 57,079,428	59.03%	14.25% - 14.56%	8.41% - 8.59%
Debt	<u>39,661,585</u>	<u>40.97%</u>	7.88%	<u>3.23%</u>
Total	\$ 96,690,943	100.00%	-	11.64% - 11.82%

Common equity, debt and the cost of debt are based on the aggregation of the BOCs, using a beginning and ending average for 1993 based on the FCC's ARMIS 43-02 USOA report.

RESUME

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June 1994

BUSINESS ADDRESS

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APPOINTMENTS

1994: **ASSOCIATE PROFESSOR OF FINANCE**
Virginia Polytechnic Institute and State University

1993: **VICE PRESIDENT**
Association for Investment Management and Research (AIMR)
Education and Programs Department

Duties: Project director, responsible for the development and design of education technology products. Projects included videos on options and futures analysis, ethical issues in the investment profession, and financial statement analysis for investment valuation and management.

Responsible for the design and offering of continuing education programs to meet the needs of AIMR members in particular and the investment industry in general. Seminars developed include "Industry Analysis: The Telecommunication Industries" and "Blending Traditional and Quantitative Analysis."

ASSOCIATE PROFESSOR OF FINANCE
On Leave of Absence
Virginia Polytechnic Institute and State University

Summers 1978, 1980: **RESEARCH ASSOCIATE**
Texas Transportation Institute,
Texas A&M University

Duties: (1978) Principal researcher and author of a study concerning design of optimal subsidy techniques for public transit projects. (1980) Co-author of research proposal for study of the projected economic impact of user charges on the Texas Gulf Intra-Coastal Waterway (proposal accepted and fully funded). Performed research concerning various policy issues in transportation economics.

PROFESSIONAL DESIGNATIONS

1992: Certified Rate of Return Analyst (CRRRA)
National Society of Rate of Return Analysts

EDUCATION

Chairman: Dr. Donald R. Fraser
Texas A&M University

- 1978: Master of Science in Economics, supporting field in Statistics
Texas A&M University
- 1976: Bachelor of Arts in Economics
Texas Tech University

PRIMARY TEACHING AND RESEARCH INTERESTS

- Teaching: Investments, Corporate Finance, Financial Institution Management.
- Research: Investments, valuation methods, cost of capital analysis, primary market pricing of debt instruments, and banking and public utility regulatory issues.

PUBLICATIONS

Journal Articles - Refereed

"Simultaneous Debt and Equity Offerings and Capital Structure Targets," *Journal of Financial Research*, forthcoming, (Author listing: R. S. Billingsley, D. M. Smith, and R. E. Lamy).

"Regional Reciprocal Interstate Banking: The Supreme Court and the Resolution of Uncertainty," *Journal of Banking and Finance*, Vol. 16, No. 1, 1992, pp. 665-686, (Author listing: R. S. Billingsley and R. E. Lamy).

"Integration of the Mortgage Market," *Journal of Financial Services Research*, Vol. 6, 1992, 137-155, (Author listing: R. S. Billingsley, V. A. Bonomo, and S. P. Ferris).

"Units of Debt with Warrants: Evidence of the 'Penalty-Free' Issuance of an Equity-Like Security," *The Journal of Financial Research*, Vol. 13, No. 3, Fall 1990, pp. 187-199, (Author listing: R. S. Billingsley, R. E. Lamy, and D. M. Smith).

"Shareholder Wealth and Stock Repurchases By Bank Holding Companies," *Quarterly Journal of Business and Economics*, Vol. 28, No. 1, Winter 1989, pp. 3-25, (Author listing: R. S. Billingsley, D. R. Fraser and G. R. Thompson).

Abstract: *Journal of Economic Literature*, Vol. 27, No. 3, September 1989, p. 1503.

"The Regulation of International Lending: IMF Support, the Debt Crisis, and Bank Shareholders," *Journal of Banking and Finance*, Vol. 12, No. 2, 1988, pp. 255-274, (Author listing: R. S. Billingsley and R. E. Lamy).

"Put-Call Ratios and Market Timing Effectiveness," *Journal of Portfolio Management*, Vol. 15, No. 1, Fall 1988, pp. 25-28, (Author listing: R. S. Billingsley and D. M. Chance).

Citation: "Using 'Dumb' Money as a Market Guide," Earl C. Gottschalk, Jr., the *Wall Street Journal*, January 17, 1989, p. C1.

"Bankruptcy Avoidance As A Merger Incentive," *Managerial Finance*, Vol. 14, No. 1, November 1988, pp. 25-33, (Author listing: R. S. Billingsley, D. J. Johnson, and R. P. Marquette).

"The Pricing and Performance of Stock Index Futures Spreads," *Journal of Futures Markets*, Vol. 8, No. 3, June 1988, pp. 303-318, (Author listing: R. S. Billingsley and D. M. Chance).

"The Choice Among Debt, Equity, and Convertible Bonds," *The Journal of Financial Research*, Vol. 11, No. 1, Spring 1988, pp. 43-55, (Author listing: R. S. Billingsley, R. E. Lamy, and G. R. Thompson).

"Valuation of Primary Issue Convertible Bonds," *The Journal of Financial Research*, Vol. 9, No. 3, Fall 1986, pp. 251-259, (Author listing: R. S. Billingsley, R. E. Lamy, and G. R. Thompson).

Abridged Reprint: *The CFA Digest*, Vol. 17, No. 2, Spring 1987, pp. 18-19.

"The Reaction of Defense Industry Stocks to World Events," *Akron Business and Economic Review*, Vol. 18, No. 2, Summer 1987, pp. 40-47, (Author listing: R. S. Billingsley, R. E. Lamy, and G. R. Thompson).

"Listed Stock Options and Managerial Strategy," *Strategy and Executive Action*, No. 4, Fall 1986, pp. 17-20, 28, (Author listing: R. S. Billingsley and D. M. Chance).

"Reevaluating Mortgage Refinancing 'Rules of Thumb,'" *Journal of the Institute of Certified Financial Planners*, Vol. 7, No. 1, Spring 1986, pp. 37-45, (Author listing: R. S. Billingsley and D. M. Chance).

"Explaining Yield Savings on New Convertible Bond Issues," *Quarterly Journal of Business and Economics*, Vol. 24, No. 3, Summer 1985, pp. 92-104, (Author listing: R. S.

Billingsley, R. E. Lamy, M. W. Marr, and G. R. Thompson).

Abstract: *Journal of Economic Literature*, Vol. 24, No. 2, June 1986, p. 1083.

"Options Market Efficiency and the Box Spread Strategy," *The Financial Review*, Vol. 20, No. 4, November 1985, pp. 287-301, (Author listing: R. S. Billingsley and D. M. Chance).

Reprint: *CFA Readings in Derivative Securities*, pp. 217-231, Charlottesville, VA: The Institute of Chartered Financial Analysts, 1988.

"Determinants of Stock Repurchases by Bank Holding Companies," *Journal of Bank Research*, Vol. 16, No. 3, Autumn 1985, pp. 128-35, (Author listing: R. S. Billingsley and G. R. Thompson).

"The Informational Content of Unrated Industrial Bonds," *Akron Business and Economic Review*, Vol. 16, No. 2, Summer 1985, pp. 53-58, (Author listing: R. S. Billingsley and R. E. Lamy).

"Split Ratings and Bond Reoffering Yields," *Financial Management*, Vol. 14, No. 2, Summer 1985, pp. 59-65, (Author listing: R. S. Billingsley, R. E. Lamy, M. W. Marr, and G. R. Thompson).

"Determinants of Bank Holding Company Bond Ratings," *The Financial Review*, Vol. 19, No. 1, March 1984, pp. 55-66, (Author listing: R. S. Billingsley and D. R. Fraser).

Abstract: *Journal of Economic Literature*, Vol. 22, No. 4, December 1984, p. 2010.

"Market Reaction to the Formation of One-Bank Holding Companies and the 1970 Bank Holding Company Act Amendment," *Journal of Banking and Finance*, Vol. 8, No. 2, 1984, pp. 21-33, (Author listing: R. S. Billingsley and R. E. Lamy).

Journal Articles - Other

"Managing Portfolios Using Index Options," *Futures*, Vol. 14, No. 9, September 1985, pp. 70-74, (Author listing: D. M. Chance and R. S. Billingsley).

Monographs & Sponsored Research

"The Evolution of Depository Institution Regulation In The United States," in *Banking and Monetary Reform: A Conservative Agenda*, Catherine England, pp. 47-56, Washington, D. C.: The Heritage Foundation, 1985, (Author listing: R. S. Billingsley).

Fare Box and Public Revenue: How to Finance Public Transportation. State Department of Highways and Public Transportation, Texas Transportation Institute, February 1980, (Author listing: R. S. Billingsley, P. K. Guseman and W. F. McFarland).

Proceedings

"Bankruptcy Avoidance as a Merger Incentive: An Empirical Study of Failing Firms," *The Financial Review*, Vol. 18, No. 3, 1983, p. 94, (Author listing: R. S. Billingsley, D. J. Johnson, and R. P. Marquette).

"A Multivariate Analysis of the Ratings of Bank Holding Company Debt Issues," *The Financial Review*, Vol. 17, No. 2, July 1982, p. 57, (Author listing: R. S. Billingsley and D. R. Fraser).

PAPERS PRESENTED AT PROFESSIONAL MEETINGS

"Estimation Bias in the Application of the Quarterly Discounted Cash Flow Model to Public Utility Cost of Capital Analysis," (Author listing: R. S. Billingsley and V. A. Bonomo). Presented at the Financial Management Association Meetings, San Francisco, California, October 1992.

"Firm Value and Convertible Debt Issues: Signalling vs. Agency Effects," (Author listing: R. S. Billingsley, R. E. Lamy, and D. M. Smith). Presented at the Eastern Finance Association Meetings, Hot Springs, Virginia, April 1991.

"The Valuation of Simultaneous Debt and Equity Offerings," (Author listing: R. S. Billingsley, R. E. Lamy, and D. M. Smith). Presented at the Financial Management Association Meetings, Orlando, Florida, October 1990.

"The Choice Between Issuing Convertible Bonds and Units of Debt with Warrants," (Author listing: R. S. Billingsley, R. E. Lamy and D. M. Smith). Presented at the Financial Management Association Meetings, New Orleans, Louisiana, October 1988. (Subsequently published in *The Journal of Financial Research*, see article citation.)

"The Choice Among Debt, Equity, and Convertible Bonds," (Author listing: R. S. Billingsley, R. E. Lamy, and G. R. Thompson). Presented at the Financial Management Association Meetings, Las Vegas, Nevada, October 1987. (Subsequently published in *The*

Journal of Financial Research, see article citation.)

"The Regulation of International Lending: IMF Support, the Debt Crisis, and Bank Shareholders," (Author listing: R. S. Billingsley and R. E. Lamy). Presented at the Conference on Bank Structure and Competition, Federal Reserve Bank of Chicago, Chicago, Illinois, May 1986. (Subsequently published in the *Journal of Banking and Finance*, see article citation.)

"Valuation of Primary Issue Convertible Bonds," (Author listing: R. S. Billingsley, R. E. Lamy and G. R. Thompson). Presented at the Financial Management Association Meetings, Denver, Colorado, October 1985. (Subsequently published in *The Journal of Financial Research*, see article citation.)

"The Economic Impact of Split Ratings on Bond Reoffering Yields," (Author listing: R. S. Billingsley, R. E. Lamy, M. W. Marr, and G. R. Thompson). Presented at the Financial Management Association Meetings, Toronto, Canada, October 1984. (Subsequently published in *Financial Management*, see article citation.)

"The Informational Content of Unrated Industrial Bonds," (Author listing: R. S. Billingsley and R. E. Lamy). Presented at the Financial Management Association Meetings, Atlanta, Georgia, October 1983. (Subsequently published in *Akron Business and Economic Review*, see article citation.)

"Bankruptcy Avoidance As A Merger Incentive: An Empirical Study of Failing Firms," (Author listing: R. S. Billingsley, R. P. Marquette, and D. J. Johnson). Presented at the Eastern Finance Association Meetings, New York, New York, April 1983. (Subsequently published in *Managerial Finance*, see article citation.)

"A Multivariate Analysis of the Ratings of Bank Holding Company Debt Issues," (Author listing: R. S. Billingsley and D. R. Fraser). Presented at the Eastern Finance Association Meetings, Jacksonville, Florida, April 1982. (Subsequently published in *The Financial Review*, see article citation.)

PROFESSIONAL SERVICE

Association for Investment Management and Research Activities
(Formally the Institute for Chartered Financial Analysts).

Grading Staff, Institute of Chartered Financial Analysts, June 1987.

Candidate Curriculum Committee, Institute of Chartered Financial Analysts, Quantitative Analysis Sub-Committee, 1987-1989.

CFA Examination Analysis Team, Levels I-III, March 1988.

CFA Examination Grading Review Team, July 1988.

Instructor, CFA Refresher Course, Valuation: Equity, Charlottesville, VA, June 1992.

Consulting Clients

Association for Investment Management and Research

Bell Atlantic

BellSouth Telecommunications

The Financial Analysts' Review of the United States

Institut Penembangan Analisis Finansial, Jakarta, Indonesia

Securities Analysts' Association, Bangkok, Thailand

Union Bank of Switzerland, Zürich

United States Telephone Association

Manuscript Referee

Journal of Banking and Finance

Journal of Financial Research

Journal of Futures Markets

Financial Review

Quarterly Journal of Business and Economics

Quarterly Review of Business and Economics

International Review of Economics and Finance

Japan and the World Economy

Journal of Business Research

Journal of Economics and Business

Engineering Economist

Program Committee, 1992 Financial Management Association Meeting.

Program Committee, 1991 Financial Management Association Meeting.

Reviewer for 1992 Eastern Finance Association meeting papers.

Reviewer for 1985 Eastern Finance Association paper competition.

INVITED SPEECHES

Southeastern Electric Exchange, "Do the Traditional Rate of Return Estimation Methods Work Anymore? St. Petersburg, FL, October 1994.

Securities Analysts' Association, "Common Problems in Valuing Equity Securities," Bangkok, Thailand, April 1992.

Virginia Bankers Association, Group Five (Credit Policy Committee), "Want to Sell Your Bank?" Interstate Banking in 1987 and Beyond," Credit Policy Conference, Radford, VA, April 1987.

EXECUTIVE DEVELOPMENT ACTIVITIES

Developed continuing education program with Don M. Chance entitled, "Managing Interest Rate Risk with Financial Futures." Presented in Roanoke, VA (May 1984) and Williamsburg, VA (June 1984).

ATTACHMENT 3

**Reply Comments: Market Analysis and Pricing
Flexibility for Interstate Access Services**

by

Richard Schmalensee and William Taylor

**REPLY COMMENTS:
MARKET ANALYSIS AND PRICING FLEXIBILITY
FOR INTERSTATE ACCESS SERVICES**

Prepared by

Richard Schmalensee and William Taylor

June 29, 1994

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**Reply Comments:
Market Analysis and Pricing Flexibility
for Interstate Access Services**

I. Introduction

In its Notice of Proposed Rulemaking, the Commission invited comments on transitional issues regarding criteria for streamlined regulation and increased pricing flexibility for LEC interstate carrier access services.¹ Competitors and large customers (interexchange carriers) of the LECs filed comments generally opposing increased LEC pricing flexibility on the grounds that competition had not yet developed sufficiently to restrict the LECs' market power. Instead, they proposed criteria to determine when--in the future--pricing flexibility might be warranted, and these criteria generally required the loss of significant amounts of market share to competitors. In addition, competitors proposed particular limits on LEC interstate access pricing allegedly to protect against anticompetitive behavior.

On behalf of the United States Telephone Association (USTA), we filed comments regarding a USTA proposal to tie increased pricing flexibility in individual geographic markets to the availability of alternatives to LEC access facilities in those markets. We concluded that

(t)he USTA criteria will engender economic efficiency incentives that support the FCC's stated goals for carrier access regulation. Customers that would be able to purchase access services from the LECs, CAPs or other competitors at the most efficient and lowest price are the beneficiaries of the

¹Price Cap Performance Review for Local Exchange Carriers, CC Docket No. 94-1, Notice of Proposed Rulemaking, released February 16, 1994, ¶¶ 92-96.